

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2765**

AUDIT REPORT  
OF

NEW HORIZON, INCORPORATED  
DBA LAKE COUNTY MINORITY TOBACCO COALITION  
LAKE COUNTY, INDIANA

January 1, 2002 to December 31, 2003





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COALITION OFFICIAL

Office

Official

Term

Executive Director

Mr. Walter L. Scott

03-01-02 to 12-31-03



# STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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## INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIAL OF NEW HORIZON, INCORPORATED, DBA LAKE COUNTY  
MINORITY TOBACCO COALITION, LAKE COUNTY, INDIANA

We have audited the Statements of Receipts, Disbursements, and Cash and Investment Balances New Horizon, Incorporated, DBA Lake County Minority Tobacco Coalition (Coalition), as of and for the years ended December 31, 2002 and 2003. These financial statements are the responsibility of the Coalition's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Items were posted and paid from the General Fund for which no supporting documentation was provided, or supporting documentation provided did not support the amounts disbursed. Transfers were made from the fiduciary trust fund but not all of the transfers were posted.

As discussed in Note 1, the Coalition prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash basis laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States.

In our opinion, because of the effects of the reported disbursements being inadequately supported, and the fact that not all financial activity has been posted or reported, the financial statements referred to above do not present fairly, in all material respects, the cash and investment balances of the Coalition as of December 31, 2002 and 2003, and the cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note 1.

STATE BOARD OF ACCOUNTS

October 27, 2004

NEW HORIZON INCORPORATED DBA LAKE COUNTY MINORITY TOBACCO COALITION  
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
 ALL GOVERNMENTAL AND FIDUCIARY FUND TYPES  
 As Of And For The Year Ended December 31, 2002

	<u>Governmental Fund Type</u>	<u>Fiduciary Fund Type</u>
	<u>General</u>	<u>Trust</u>
Cash and Investments - January 1	\$ -	\$ -
Operating Receipts:		
Intergovernmental	-	540,900
Transfers In	<u>371,000</u>	<u>-</u>
Total Receipts	<u>371,000</u>	<u>540,900</u>
Operating Disbursements:		
Health and Welfare	361,308	-
Transfers Out	<u>-</u>	<u>416,000</u>
Total Disbursements	<u>361,308</u>	<u>416,000</u>
Excess of Total Receipts Over Total Disbursements	<u>9,692</u>	<u>124,900</u>
Cash and Investments - December 31	<u><u>\$ 9,692</u></u>	<u><u>\$ 124,900</u></u>

The accompanying notes are an integral part of the financial statements.

NEW HORIZON INCORPORATED DBA LAKE COUNTY MINORITY TOBACCO COALITION  
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
 ALL GOVERNMENTAL AND FIDUCIARY FUND TYPES  
 As Of And For The Year Ended December 31, 2003

	<u>Governmental Fund Type</u>	<u>Fiduciary Fund Type</u>
	<u>General</u>	<u>Trust</u>
Cash and Investments - January 1	\$ 9,692	\$ 124,900
Operating Receipts:		
Other	-	21,040
Interest	<u>100</u>	<u>-</u>
Total Operating Receipts	100	21,040
Refunds	400	-
Transfers In	<u>125,940</u>	<u>-</u>
Total Receipts	<u>126,440</u>	<u>21,040</u>
Operating Disbursements:		
Health and Welfare	135,653	20,000
Service Charges	80	-
Transfers Out	<u>-</u>	<u>125,940</u>
Total Disbursements	<u>135,733</u>	<u>145,940</u>
Deficiency of Total Receipts Under Total Disbursements	<u>(9,293)</u>	<u>(124,900)</u>
Cash and Investments - December 31	<u><u>\$ 399</u></u>	<u><u>\$ -</u></u>

The accompanying notes are an integral part of the financial statements.

NEW HORIZON, INCORPORATED  
DBA LAKE COUNTY MINORITY TOBACCO COALITION  
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Introduction

The Coalition was established as the result of a grant award. Indiana Code 4-12-4 established the Tobacco Use Prevention and Cessation Trust Fund, an executive board, and a state agency called the Indiana Tobacco Prevention and Cessation (ITPC), to issue grants to eligible entities. New Horizon, Incorporated, applied for the grant funds as a lead agency for the newly established Lake County Minority Tobacco Prevention and Cessation Coalition (Coalition), which consisted of nineteen (19) partnership member organizations committed to being nicotine-free. The Coalition was established to prevent and reduce the use of all tobacco products, and to protect citizens from exposure to second-hand smoke, with particular emphasis on minority communities in Lake County.

B. Reporting Entity

These financial statements present the Coalition. There are no significant component units which require inclusion.

C. Fund Accounting

The Coalition uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

The Coalition has the following funds:

The Coalition fund is used to account for all or most tobacco prevention and cessation activities.

The New Horizon Corp Medical Account fund is used to account for assets held on behalf of Coalition.

D. Basis of Accounting

The accompanying financial statements are prepared on the basis of cash receipts and disbursements. Operating receipts and disbursements are cash inflows and outflows related to the daily operations of the Coalition. The cash basis of accounting differs from accounting principles generally accepted in the United States in that receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

E. Budgets

The operating budget is initially prepared and approved by the Indiana Tobacco Prevention and Cessation Agency as part of the grant award.

Formal budgetary integration is required by the Indiana Tobacco Prevention and Cessation Agency and is employed as a management control device. An annual budget was legally adopted for the Coalition Fund.



NEW HORIZON, INCORPORATED  
DBA LAKE COUNTY MINORITY TOBACCO COALITION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

F. Grant Awards

The Indiana General Assembly approved a total of sixty-five million dollars (\$65,000,000) for the next two years to implement a statewide coordinated, comprehensive tobacco prevention and cessation program in Indiana. New Horizon, Incorporated, received a grant award of one million eighty-one thousand eight hundred dollars (\$1,081,800) payable over a two year period. All payments under the grant award should be made in four (4) equal installments over the two year period. The first payment should occur within 30 days of execution of the grant agreement. The following three payments will be made every six (6) months thereafter.

G. Investments

Investments are stated at cost. Any change in the fair value of the investments is reported as interest receipts in the year of the sale of the investment.

Note 2. Deposits and Investments

Deposits, made in accordance with IC 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9) authorizes the Coalition to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 3. Subsequent Event

Indiana Tobacco Prevention and Cessation discontinued funding to New Horizon, Incorporated, doing business as Lake County Minority Tobacco Coalition.

NEW HORIZON, INCORPORATED  
DBA LAKE COUNTY MINORITY TOBACCO COALITION  
AUDIT RESULTS AND COMMENTS

BACKGROUND INFORMATION

The State of Indiana, along with other states, was awarded a settlement from the tobacco industry. As a result of this settlement, the Indiana General Assembly enacted IC 4-12-4, which established the Indiana Tobacco Use Prevention and Cessation Trust Fund and, through IC 4-12-4-4, the Indiana Tobacco Prevention and Cessation executive board was created. IC 4-12-4-10 states, "The Indiana tobacco use prevention and cessation trust fund is established. The executive board may expend money from the fund and make grants from the fund to implement the long range state plan established under this chapter."

The Indiana Tobacco Prevention and Cessation (ITPC) Agency was established to administer grants from the tobacco settlement funds. New Horizon, Incorporated, applied for and received a grant in the amount of \$1,081,800, for the period of January 1, 2002, to December 31, 2003, for "eligible costs of the project described in Exhibit A." Exhibit A is the "Lake County Tobacco Prevention and Cessation Coalition Budget Worksheet and Narrative" for Year One, 2002, and Year Two, 2003. The grant was to be disbursed from the ITPC in four installments. The first two installments totaling \$540,900 were to cover the period from January 1, 2002, to December 31, 2002. The next two installments were to be distributed in 2003 for the period from January 1, 2003, to December 31, 2003; however, the funding was discontinued by ITPC. The decision to discontinue the funding was communicated to New Horizon, Incorporated, on September 30, 2003, in which ITPC stated, ITPC "will serve as the lead agency and fiscal officer for the remainder of the grant cycle ending December 31, 2003." ITPC also stated, "At this time it is necessary that New Horizons, Inc., reconcile the grant fund balance, correct and file the fiscal reports, and return the balance of tobacco grant funds remaining in your possession to ITPC immediately." This directive, along with others outlined in the letter, were not adhered to by New Horizon, Incorporated.

NHI Corporation was incorporated by Paula Nalls and Priscilla Scott in 1996 as a for profit corporation. Walter L. Scott is the registered agent, and Priscilla is the president and secretary. In 1999, a Certificate of Assumed Business Name was filed and listed New Horizon, Incorporated, (NHI) as an assumed name for the Corporation. New Horizon, Incorporated, upon award of the grant, opened a checking account, New Horizon Inc. DBA Lake County Minority Tobacco Coalition. For all tobacco related activities, New Horizon, Incorporated, identified itself as Lake County Minority Tobacco Coalition.

IC 4-12-4-12 states:

"A public or private entity or individual may submit an application to the executive board for a grant from the fund. Each application must be in writing and contain the following information:

- (1) A clear objective to be achieved with the grant.
- (2) A plan for implementation of the specific program.
- (3) A statement of the manner in which the proposed program will further the goals of the executive board's mission statement and long range state plan.
- (4) The amount of the grant requested.
- (5) An evaluation and assessment component to determine the program's performance.
- (6) Any other information required by the executive board.

The executive board may adopt written guidelines to establish procedures, forms, additional evaluation criteria, and application deadlines."

NEW HORIZON, INCORPORATED  
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AUDIT RESULTS AND COMMENTS  
(Continued)

CORPORATE STATUS OF THE GRANTEE

The grant agreement was entered into by the Indiana Tobacco Prevention and Cessation Executive Board and New Horizons, Inc. Walter L. Scott signed the agreement on behalf of New Horizons, Inc., as its Executive Director. It appears from the records of the Indiana Secretary of State, however, that the only active corporation known as "New Horizons, Inc." was formed by Richard J. and Martha Davis of LaPorte, Indiana, in 1991, and Walter L. Scott does not appear to be affiliated with that corporation. In addition, there is an active corporation known as "New Horizon, Inc." which was formed in 2002 by Glenn Killoren of Elkhart, Indiana, and its assumed business name is "New Horizon Directional Drilling."

Walter L. Scott is, however, shown as the registered agent for a corporation called "NHI Corp." which was formed as a for-profit domestic corporation on December 9, 1996, with its principal office at 4795 Broadway, Gary, Indiana. The principals of that corporation are Priscilla L. Scott, Incorporator; Paula L. Nalls, Incorporator; and Priscilla L. Scott, President and Secretary. All of the principals are listed as residents of Gary, Indiana. On October 22, 1999, a certificate of assumed business name was filed on behalf of NHI Corp., whereby it certified that it was operating under the assumed name of "New Horizon, Inc." Note that this name was already in use by another corporation.

Since Walter L. Scott apparently signed the grant agreement on behalf of New Horizons, Inc., a corporation in which he had no interest, there is a serious question as to the agreement's validity.

It should also be pointed out that an online business directory known as "InfoUSA" lists Walter Scott as the President, VP of Sales, and VP of Finance of "New Horizons, Inc." at 4795 Broadway, Gary, Indiana. It also describes the business as a wholesale dealer of office furniture and equipment.

Finally, the same address (4795 Broadway, Gary, Indiana) is listed as an "enrollment center" for the "Covering Kids and Families" or "CKF" Coalition. This coalition is described on its website as "promoting the provision of affordable health care services for children and families in Indiana." The website further indicates that the CKF coalition "depends heavily upon existing partnerships with FSSA, the Department of Education, the State Department of Health, the Indiana Hospital and Health Association and the Indiana Primary Health Care Association." It is recommended that those state agencies determine whether Walter L. Scott or the other principals of his corporation are also receiving grant funds from them and, if so, whether they are being properly spent.

TOBACCO FUNDS NOT TRANSFERRED

New Horizon, Incorporated, (NHI) had a savings account entitled Medical Account. Upon approval of the grant award, officials established a checking account for the receipt and disbursement of the tobacco cessation funds, entitled New Horizon Inc. DBA Lake County Minority Tobacco Account, which will be referred to as the Tobacco Account. The State electronically transferred the tobacco cessation funds into the Medical Account in two installments of \$270,450.00 each in March and August 2002, for a total of \$540,900.00. From January to March 2002, the Medical Account had a beginning balance of \$579.52, upon which interest was earned monthly. The only deposits into the Medical Account until December 2002 were the tobacco funds and the interest earned on these funds.

NEW HORIZON, INCORPORATED  
DBA LAKE COUNTY MINORITY TOBACCO COALITION  
AUDIT RESULTS AND COMMENTS  
(Continued)

On April 4, 2002, the first transfer out of the Medical Account was made. It was a transfer in the amount of \$50,000.00 based upon a customer phone call, and the funds were verified as transferred into the Tobacco Account. On April 30, 2002, bank statements for the Medical Account show a withdrawal in the amount of \$100,000.00, but no such amount was deposited into the Tobacco Account. Upon review of bank provided records, a Savings Withdrawal slip documents a signature, which is not decipherable, acknowledging receipt of cash returned, and a driver's license number. The driver's license number was determined to be that of Mr. Walter Scott, Director of NHI. All other withdrawals made from the Medical Account during 2002 could be traced as deposits into the Tobacco Account.

Beginning in the month of December 2002, amounts which were not tobacco related were electronically transferred into the Medical Account. These amounts totaled \$30,028.00 for the period from December 1, 2002, to December 31, 2003. On December 3, 2002, \$30,000.00 was transferred from the Auditor of State, which was federal financial assistance for child welfare services. Then on July 22 and November 20, 2003, transfers in the amount of \$14.00 each were transferred from the Auditor of State for disability determination; again, each of these two amounts were from federal sources. It should also be noted that Auditor of State electronic transfers were made into the Medical Account in January 2004. One transfer was made on January 12, in the amount of \$29,460.00, and another transfer was made on January 14, in the amount of \$540.00; each of those two amounts was federal financial assistance for child welfare services. Additionally during this same time period, customer deposits were made into this account totaling \$60,008.00. The customer deposits were made through cash and checks from accounts of New Horizon, Inc., Standard Office Supply, and Priscilla and Walter Scott.

Beginning in 2003, savings withdrawals from the Medical Account, which were not deposited to the Tobacco Account, totaled \$79,000.00 as follows:

<u>Date of Withdrawal</u>	<u>Type of Bank Document</u>	<u>Type of Withdrawal*</u>	<u>Amount</u>
01-02-03	Savings Withdrawal	Cash	\$ 39,000.00
01-09-03	Savings Withdrawal	Cash	20,000.00
01-16-03	Savings Withdrawal	Cash (See "A" Below)	10,000.00
08-01-03	Checking Advice of Charge	See "B" Below	<u>10,000.00</u>
Total			<u>\$ 79,000.00</u>

\*Type of Withdrawal, if a signature was shown in "Signature acknowledges receipt of cash returned" line, we indicated the type of withdrawal to be cash, unless other information was available to indicate something else, such as a transfer into another account.

A - The transfer out was in the amount of \$35,000.00. Bank documents for the Tobacco Account indicated \$25,000.00 was deposited into the Tobacco Account, and \$10,000.00 was paid by check to Mr. Walter Scott.

B - The Checking Advice of Charge states, "Today we have charged your checking account as follows: Transfer to C/A 133510416 per Walter Scott phone request." This account number belongs to Priscilla and Walter Scott.

NEW HORIZON, INCORPORATED  
DBA LAKE COUNTY MINORITY TOBACCO COALITION  
AUDIT RESULTS AND COMMENTS  
(Continued)

Bank records for the Tobacco Account show that some amounts were deposited into the Tobacco Account, which were not from the Medical Account, as follows:

Date of Deposit	Type of Bank Document	Explanation per Records or Bank Documents	Amount
01-02-03	Cash-in ticket	*Return of M & S Educational Services grant not used	\$ 20,000.00
01-27-03	Copy of check	*Meeting Services Unlimited (refund reg fee)	60.00
04-01-03	Copy of check	*Priscilla and Walter Scott (reimbursement of prior undocumented invoice charges)	<u>340.00</u>
Total of amounts considered reimbursements of previously disbursed tobacco funds			<u>20,400.00</u>
03-05-03	Copy of check	Walter and Priscilla Scott personal check	1,500.00
03-05-03	Copy of check	Priscilla and Walter Scott personal check	4,000.00
03-05-03	Copy of saving withdrawal	Walter Scott Named as account holder	4,500.00
03-05-03	Copy of check	Priscilla and Walter Scott personal check	4,000.00
09-10-03	Cash-in ticket	No explanation provided	<u>100.48</u>
Total personal funds of Walter and/or Priscilla Scott			<u>14,100.48</u>
03-05-03	Copy of Check	Team Consulting, Inc., business check payable to cash	<u>10,000.00</u>
Total			<u><u>\$ 44,500.48</u></u>

\*These amounts totaling \$20,400.00 were reimbursements of amounts previously transferred from the Medical Account to the Tobacco Account. The funds were then paid from the Tobacco Account, and subsequently returned; therefore, these funds cannot be considered in determining the amount of the grant award which was deposited and made available by New Horizon, Incorporated, for tobacco prevention and cessation activities.

The transfers from the Medical Account directly into the Tobacco Account and the remaining amounts from above will be considered in determining the portion of the grant award which was deposited and made available for tobacco related activities as noted below.

Detail of Funds Deposited to Tobacco Account	Amount
Total funds transferred from the Medical Account	\$ 452,939.71
Personal funds of Walter and/or Priscilla Scott	14,100.48
Team Consulting, Incorporated, checks payable to cash	<u>10,000.00</u>
Total	477,040.19
Amount of grant award, and funds disbursed by State to NHI	<u>540,900.00</u>
Amount of grant award not deposited and used for tobacco related activities	<u><u>\$ (63,859.81)</u></u>

NEW HORIZON, INCORPORATED  
DBA LAKE COUNTY MINORITY TOBACCO COALITION  
AUDIT RESULTS AND COMMENTS  
(Continued)

Based upon an analysis of funds deposited into the Medical Account, but not transferred into the Tobacco Account the amount of the grant award not deposited can also be computed as follows:

<u>Explanations</u>	<u>Amount</u>
April 30, 2002, withdrawal by Mr. Scott	\$ 100,000.00
2003 Savings withdrawals	<u>79,000.00</u>
 Total money transferred out of Medical Account NOT into the Tobacco Account	 179,000.00
Less:	
Funds deposited into the Medical Account from State for other uses	 (30,028.00)
Funds deposited into the Medical Account from other sources	 <u>(60,008.00)</u>
 Total available for transfer to Tobacco Account	 88,964.00
Less funds deposited from other sources:	
Personal funds of Walter and/or Priscilla Scott	(14,100.48)
Team Consulting, Inc., check payable to "Cash"	(10,000.00)
Net interest on Medical Account (interest less service charges and legal process fees)	 <u>(1,003.71)</u>
 Amount of grant award not deposited and used for tobacco related activities	 <u>\$ 63,859.81</u>

The grant agreement, section V.III., Use of Funds by Grantee, states, "Grant funds received by the Grantee pursuant to this Agreement shall be used only to institute an approved Tobacco Prevention and Cessation program permitted by Indiana Code 4-12-4 and the Invitation to apply for Grant, which project is described fully in Exhibit A, attached hereto, and the Grantee's completed application, on file with ITPC, made a part hereof and incorporated herein by reference as part of this agreement."

Section V.II., Statutory Authority of Grantee, states, "If the Grantee in this Agreement is a qualified entity under Indiana Code 4-12-4, it expressly warrants to the State that it is statutorily eligible to receive monies from the Tobacco Use Prevention and Cessation Fund, and it expressly agrees to repay all monies paid to it under this Agreement should a legal determination of its ineligibility be made by any court of competent jurisdiction."

IC 35-43-5-11 states, "A person who knowingly or intentionally provides false information to a governmental entity to obtain a contract from the governmental entity commits a Class A misdemeanor. However, the offense is a Class D felony if the provision of false information results in financial loss to the governmental entity."

We are recommending that officials from ITPC request repayment in the amount of \$63,859.81 from Mr. Walter Scott for state funds not deposited for use in intended purpose. (See Summary, Page 32)

NEW HORIZON, INCORPORATED  
DBA LAKE COUNTY MINORITY TOBACCO COALITION  
AUDIT RESULTS AND COMMENTS  
(Continued)

UNNECESSARY BANK FEES

New Horizon, Incorporated, incurred several bank fees on the Tobacco Account as follows:

<u>Type of Fees</u>	<u>Amount</u>
Bank deposit immediate verification fees	\$ 20.00
Legal process fees (See "A" below)	398.35
Service charges (See "B" below)	90.00
Extended overdraft fees	27.50
Less: Overdraft write off by bank	<u>(57.50)</u>
 Total	 <u>\$ 478.35</u>

A – As explained by the bank, these were required withdrawals per orders of the Internal Revenue Service.

B – Service charges were incurred due to the bank balance falling below the minimum required balance for this type of account, which was \$4,000.00.

The grant agreement Section V. I. states, "Failure to complete the project and expend state, local and/or private funds in accordance with this Agreement may be considered a breach of the Agreement and shall entitle the State to impose sanctions against the Grantee including, but not limited to, suspension of all grant payments, and/or suspension of the Grantee's participation in State grant programs until such time as all material breaches are cured to the State's satisfaction. Sanctions may also include repayment of all state funds expended for activities, which are not in the scope of this project as set forth in Exhibit A of this agreement."

Since not all funds given by the State were transferred into the Tobacco Account, all of the above funds were incurred and paid from Tobacco funds unnecessarily. We are requesting repayment to the State of the \$478.35 in bank fees unnecessarily incurred. (See Summary, Page 32)

CAPITAL ASSETS

A laptop computer, desktop computer and projector were purchased from tobacco funds. The listing provided by NHI Director, Mr. Walter Scott, only listed a description of the assets; no costs or acquisition dates of the assets were recorded. Also, a HP desktop computer was purchased at a cost of \$499.99. On a separate invoice, two monitors and two printers were purchased at a total cost of \$700.00 and \$160.00, respectively. When these items are included with the cost of the HP desktop computer, the cost would exceed the \$500.00 threshold as established in the grant agreement by ITPC. Since a computer is useless without a monitor, at a minimum at least one monitor should be included with the computer on the fixed asset listing.

Additionally, no amounts were budgeted for equipment and furniture.

NEW HORIZON, INCORPORATED  
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AUDIT RESULTS AND COMMENTS  
(Continued)

Indiana Tobacco Prevention and Cessation Agency provided grantees with "Budget Explanation," which details items submitted in the grant agreement budget. For Furniture and Equipment, office furniture, equipment, and computer/software upgrades are allowable, provided they are reasonable expenditures relative to the work proposed and were not purchased in a previous year. All equipment purchased with grant funds which costs \$500.00 or more shall remain the property of the ITPC and shall not be sold or disposed of without written consent from ITPC.

We are recommending that officials from the ITPC request that Mr. Walter Scott return the computer equipment and projector to ITPC.

SUBCONTRACTS

The ITPC executive board has developed and provided forms called "Minority Grant Agreement Lead Agency Sub-Contract." These forms are to be used when a grantee wishes to make a mini-grant award or a contract. Any grant awards or subcontracts must also be approved by ITPC prior to disbursing funds to the subcontractors or mini-grant award recipients. The following documents when funds were disbursed to mini-grantees, the amount of awards, and the date the subcontract was approved by the State:

<u>Mini-Grantee Agency</u>	<u>Date Approved By ITPC</u>	<u>Amount of Award</u>	<u>Date of First Disbursement to Mini-Grantee Agency</u>
Gary Community Health Foundation	07-29-02	\$ 11,225.00	07-07-02
Golden Recognition Incorporated	07-29-02	12,761.20	07-07-02
Glen Park Coalition of Concern	07-29-02	12,500.00	07-07-02
Healthy East Chicago, Incorporated	07-29-02	9,355.50	07-07-02
NATALE	07-29-02	6,000.00	06-24-02
Tree of Life Community Development	07-29-02	12,360.50	07-07-02
Lake County Minority Health Coalition	08-30-02	12,500.00	07-23-02

Per the grant agreement, "If the grantee has proposed in their application to award mini-grants, then the grantee must receive written approval on forms provided by the State for each proposed mini-grant being recommended by the grantee for funding. Failure to receive such written approval for each proposed mini-grant from the State could lead to termination of this agreement by the State."

MINI-GRANT MONEY NOT DISBURSED

The following four approved mini-grantees did not receive the remainder of their grant award:



NEW HORIZON, INCORPORATED  
DBA LAKE COUNTY MINORITY TOBACCO COALITION  
AUDIT RESULTS AND COMMENTS  
(Continued)

<u>Mini-Grantee Agency</u>	<u>Grant Award</u>	<u>Amount Not Drawn</u>
Teens Working Together	\$ 25,000.00	\$ 12,500.00
Tree of Life Community Development	24,721.00	12,360.50
Christian Unity Ensemble, Incorporated	23,050.00	11,525.00
Healthy East Chicago, Incorporated	37,421.11	18,711.00

The grant agreement states, "Failure to complete the project and expend state, local and/or private funds in accordance with this Agreement may be considered a material breach of the Agreement . . ."

SUBCONTRACTORS PAID WITHOUT AUTHORITY

The Lake County Minority Tobacco Prevention and Cessation Coalition issued the following funds for subcontractors without approval by the Indiana Tobacco Prevention and Cessation Agency.

<u>Subcontractor Per Agreement and Activity</u>	<u>Check Date</u>	<u>Check Number</u>	<u>Amount</u>	<u>Check Payable to/Endorsement</u>
Glen Park Coalition of Concern (Lead Agent), Team Consulting (Fiscal Agent)				
Senior Tobacco Control Project	08-08-02	1049	\$ 3,000	Senior Highrise Project/ Same
Senior Tobacco Control Project	09-26-02	1062	3,000	Cash/No endorsement
Lake County Minority Health Coalition (Lead Agent)				
Infant Mortality Walk-A-Thon	06-28-02	1015	1,000	Cash/Paula Nalls
Isreal Metropolitan CME Church After Schooling Program	08-13-02	1051	10,000	Isreal Metropolitan CME Church/ Same
Team Consulting, Incorporated School Infusion Program	08-07-02	1048	12,500	School Infusion Project/No Endorsement
School Infusion Program (No Invoice)	11-12-02	1074	<u>12,500</u>	School Infusion Project/Team Consulting
Total subcontract disbursements not approved			<u>\$ 42,000</u>	

"Same," under the endorsement description above, means that the endorsement was the same as to whom the check was payable.

Grant Agreement part IX. A. states, "If the grantee has proposed in their application to award mini-grants then the grantee must receive written approval on forms provided by the State for each proposed mini-grant being recommended by the grantee for funding. Failure to receive such written approval for each proposed mini-grant from the State could lead to termination of this agreement by the State."

We are recommending that ITPC officials request repayment from Mr. Walter Scott in the amount of \$42,000 for funds given to sub-contractors without prior written approval. (See Summary, Page 32)

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SUBCONTRACTOR MONITORING

New Horizon, Incorporated, and Team Consulting Incorporated paid nine individuals as monitors. When a review was performed, documentation on monitoring was provided on three subcontractors. The monitoring documentation provided showed that only the activities were monitored. Financial reports were not required to be submitted by the subcontractors, nor were any invoices or other documentation substantiating how grant funds were expended.

One of the subcontractors received the grant award in two installments as follows:

<u>Date of Check</u>	<u>Check Issued to</u>	<u>Amount</u>	<u>Date Cashed</u>	<u>Endorsement Information</u>
08-06-02	Gary Freedom House, Inc.	\$ 5,513.43	08-07-03	Undecipherable signature and address, address may be 1106 Monisae St.
03-05-03	Gary Freedom House, Inc.	<u>5,513.43</u>	03-07-03	Undecipherable signature, but address was 4320 W 15th Avenue, Gary, IN 46404
Total awarded		<u>\$ 11,026.86</u>		

The address on the front of the checks for Gary Freedom House, Incorporated, is 1112 Garfield Street, Gary, Indiana.

Names and signatures on the Minority Grant Agreement Lead Agency Subcontract, for representatives of Gary Freedom House, Incorporated, were compared to names and signatures on the Indiana Business Entity Report filed with the Indiana Secretary of State's Office. One of the names matched what was thought to be one of the endorsed names, but the addresses did not match, and a signature was not included for this individual on the Indiana Business Entity Report on file. Nothing has been provided to indicate that any monitoring has been done on this subcontractor, or as to how these funds were used, or even if they were used by Gary Freedom House, Incorporated.

"Funds received by the sub-contractor pursuant to this Agreement shall be used only to institute services described in the Grant Agreement between ITPC and the Lead Agency. Should it be determined by ITPC that the sub-contractor has used funds inconsistent with the Grant Agreement, then the Lead Agency could be required to reimburse ITPC."

We are recommending that ITPC officials request Mr. Walter Scott repay \$11,026.86 for the grant funds given to Gary Freedom House, Incorporated, as these funds could not be verified as being used for tobacco cessation and prevention related purposes. (See Summary, Page 32)

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RELATED PARTIES

New Horizon, Incorporated, DBA Lake County Minority Tobacco Coalition, distributed tobacco funds to subcontractors and vendors which may have also been related parties of the director of New Horizon, Incorporated, Walter Scott.

NHI Corporation was incorporated by Paula L. Nalls and Priscilla L. Scott in 1996 as a for profit corporation. Walter L. Scott is the registered Agent, and Priscilla is the president and secretary. In 1999, a "Certificate of Assumed Business Name" was filed and listed New Horizon, Incorporated, (NHI) as an assumed name for the corporation.

The first related party is Team Consulting, Incorporated. Team Consulting, Incorporated, has the same business address as New Horizon, Incorporated. Team Consulting, Incorporated, was formed on June 6, 2000, and administratively dissolved by the Secretary of State on May 19, 2004. The registered agent of Team Consulting, Inc., was Paula L. Nalls. The three incorporators were Paula L. Nalls, Priscilla L. Scott, and Walter L. Scott. The Chief of Operations for New Horizon, Incorporated, Paula Nalls, was also paid by Team Consulting, Incorporated. Mr. Scott stated that Paula Nalls is the Director of Team Consulting, Incorporated. Team Consulting, Incorporated, also received payments from New Horizon, Incorporated, for payroll expenses related to tobacco funding. Three of the people, including Paula Nalls, whose payroll expenses were paid by Team Consulting, Incorporated, were also paid by New Horizon, Incorporated, based upon Wage and Tax Statements provided for audit. According to the director of New Horizon, Incorporated, Team Consulting, Incorporated, was paid by New Horizon, Incorporated, as an independent contractor for providing grant monitors. The grant monitors were used in the tobacco program to monitor the activities of the subcontractors. (It should be noted that New Horizon, Incorporated, submitted the invoices to Lake County Minority Tobacco Coalition for all payroll expenses including those for Team Consulting, Incorporated. Then, New Horizon, Incorporated, according to Mr. Scott, paid Team Consulting, Incorporated.) A subcontractor agreement was not prepared or approved by ITPC for payments made to Team Consulting, Incorporated.

Based upon records provided to support payroll related disbursements, Paula Nalls was paid by Team Consulting, Incorporated, as a monitor in 2003. Other employees of Team Consulting, Incorporated, also served as grant monitors in 2002 and 2003. Based upon the Budget Worksheet and Narrative for Year One, "Program Monitors will assist Coalition Coordinator with program oversight, assist in monitoring implementation of all program activities, assist sub-grantees with program proposal development, assist with other aspects of program."

Team Consulting Incorporated was named as "applicant" on an approved "Minority Grant Agreement Lead Agency Sub-contract", which showed the name of the sub-contracting agency or individual as Glen Park Coalition of Concern. Two checks were issued to Glen Park Coalition of Concern, each in the amount of \$12,500.00. One check was endorsed Glen Park Coalition of Concern, Team Consulting, Inc; the other was endorsed Team Consulting, Inc.

A tobacco funded grant was made by New Horizon, Incorporated, to NATALE. Four checks were issued to NATALE for payment on the subcontract. One check in the amount of \$6,250.00 did not have an endorsement; a second check in the amount of \$12,500.00 and the third check in the amount of \$250.00 were endorsed NATALE, Team Consulting Inc., and the fourth check in the amount of \$6,000.00 was endorsed by Paula Nalls, who is the chief of operations for New Horizon, Incorporated, and the director of Team Consulting, Incorporated.

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Both agencies, Glen Park Coalition of Concern and NATALE, would have required monitoring to be performed. Program monitors, who are paid directly with tobacco funds, should not also be named as applicants on those same grant agreements; nor should they be endorsing the checks of the grantor agencies.

Paula Nalls also endorsed the following checks paid directly from the tobacco funds:

Date of Check	Vendor/Check Payable to:	Amount	Other Information on the Check
06-28-02	Lake County Minority Health Coalition/Cash	\$ 1,000.00	Infant Mortality Walk-A-Thon June 28, 2002, sponsorship costs, vendor stations, and promotional t-shirts
12-09-02	ITPC/Cash	508.00	ITPC conference per diem and meals for Walter Scott, Sandra Porter-Phillips, Paula Nalls, Kenneth Jackson, Katherlyn Thedford, and Michelle Bates-Leon
06-28-02	No invoice/Cash	340.00	Supplies, no invoice, but reimbursed by Mr. Scott (deposited \$10,340)
06-10-02	Administrative meeting with ITPC/Paula Nalls	124.00	Administrative meeting with ITPC per diem and mileage (Walter Scott and Paula Nalls)

The next related party is M & S Education Services. On September 30, 2002, \$20,000.00 was paid to M & S Educational Services. A subcontract was not provided for audit, nor had one been submitted or approved by ITPC. The money was returned to New Horizon, Incorporated, and deposited on January 2, 2003, as a cash deposit to the New Horizon, Inc., DBA Lake County Minority Tobacco Coalition Account. It was noted from the check that M & S Educational Services had the same address as an employee of New Horizon, Incorporated. Upon inquiry, it was revealed that M & S Educational Services is owned and operated by Michael Scott, who is the brother of Walter Scott, who is the executive director of New Horizon, Incorporated.

Another related party is Standard Business Solutions. Mr. Walter Scott and his wife, Priscilla, own and operate Standard Business Solutions. All rent paid for office space, which totaled \$12,000.00, of the New Horizon, Incorporated, DBA Lake County Minority Tobacco Coalition was paid to Standard Business Solutions; additionally, several purchases were made from Standard Business Solutions for equipment and supplies, including a computer, printer, coat rack, and waste receptacle. Purchases from Standard Business Solutions for equipment and supplies totaled \$7,498.14.

RLS Consulting may be another related party. Checks were drawn payable to "RLS Consulting, Inc.," and showed the address as 4277 Ohio Street, Gary, Indiana. The owner of RLS Consulting is Ronier L. Scott. The business address on the only invoice submitted to New Horizon, Incorporated, DBA Lake County Minority Tobacco Coalition is the same as New Horizon, Incorporated, 4795 Broadway, Gary, Indiana 46409. A contract was later provided to support a second disbursement to RLS Consulting, in which the address for RLS Consulting was listed as 4277 Ohio Street, Gary, Indiana. Amounts paid to RLS Consulting, Inc., totaled \$5,000.00. It should be noted that checks were made payable to "RLS Consulting, Inc.," but the contract, invoices, and check endorsements indicate the vendor as RLS Consulting. It is not known whether or not amounts paid to such agencies or individuals were reported to the Internal Revenue Service as miscellaneous income on form 1099 by New Horizon, Incorporated.

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Invoices submitted by several businesses, including New Horizon, Incorporated, RLS Consulting, Standard Business Solutions, and Create A Basket and Things, are all printed in the same format, and all from the same address; however, Create A Basket and Things did change their address in 2003. Mr. Scott indicated that he had assisted some of these businesses in setting up their books, and that they all have offices at this same location.

Checks were observed as payable to various entities, but all were deposited into the same account, which was not one of the regular business accounts for any one of these entities. For example, a check written to New Horizon, Incorporated, in the amount of \$12,000.00, one written to Standard Business Solutions, in the amount of \$1,680.48, and a third payable to Cash - School Infusion Program, in the amount of \$14,547.71, were all deposited into the same account, the endorsement indicated "SBS."

Grant Agreement part IX. A. states, "If the grantee has proposed in their application to award mini-grants then the grantee must receive written approval on forms provided by the State for each proposed mini-grant being recommended by the grantee for funding. Failure to receive such written approval for each proposed mini-grant from the State could lead to termination of this agreement by the State."

Budget explanation states, "Descriptions of contracts for program activities must be included along with budget information. (Contracts for administrative activities such as out of agency printing, etc., do not need to be described.) On your budget form or on another page describe for each contract the following information: 1) scope of work including tasks and deliverables, 2) time period of the contract, 3) person in your agency who will supervise or manage the sub-recipient contract, 4) name of the contractor or, if not yet known, what method will be used to select the contractor, e.g. bids, RFPs, mini-grants, sole source, etc. The Tobacco Prevention and Cessation Agency will provide a contract format to be used to collect information on sub-grantees upon award of the grant funds."

IC 35-43-5-11 states, "A person who knowingly or intentionally provides false information to a governmental entity to obtain a contract from the governmental entity commits a Class A misdemeanor. However, the offense is a Class D felony if the provision of false information results in financial loss to the governmental entity."

#### SALARIES AND BENEFITS

New Horizon, Incorporated, (NHI) documented that payroll expenses related to the Lake County Minority Tobacco Coalition (LCMTC) totaled \$51,932.00 and \$33,358.00 for 2002 and 2003, respectively.

As explained by Mr. Scott, only the Program Coordinator was a full-time employee of the LCMTC, but he was paid through New Horizon, Incorporated. Based upon check stubs provided by Mr. Scott for the program coordinator, a full-time salary was paid to him for "tobacco salary," but also included on the stubs were amounts paid for bonuses and Medicaid case management. The total paid in 2002 for bonuses and case management were \$3,817.50, and \$20.00, respectively. In 2003, the program coordinator was paid \$5,075.00 in bonuses, and \$1,370.00 for Medicaid case management. None of the amounts paid for bonuses or Medicaid case management were included below as part of the tobacco payroll; however, it is unclear as to how the bonuses and case management duties were related to tobacco cessation. Employees of two agencies, New Horizon, Incorporated, and Team Consulting, Incorporated, were used to work on grant activities, mostly as grant monitors. Mr. Scott also stated that support employees from the two agencies were used as needed for copying and other small tasks. Time sheets and/or time cards were not maintained to document

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how much time was spent working for each agency. Records submitted for audit to document payroll expenses, were generated from Quick Books (a commonly used commercial software accounting package) programs maintained by each agency. The records submitted were from "Payroll Item QuickReport," New Horizon, Inc., and "Transaction Detail by Account" from Team Consulting, Inc. The following summarizes amounts budgeted in the grant agreement for payroll by job title, and payroll expenses from each agency by job title for each year in which the salaries and wages were paid:

For the period January 1, 2002, to December 31, 2002:

Job Title	Budget	Amount Paid by New Horizon, Inc.	Amount Paid by Team Consulting, Inc.	Total Salaries and Wages Paid
Program Coordinator	\$ 32,000.00	\$ 14,772.00	\$ -	\$ 14,772.00
Coordinator/Monitor	-	6,160.00	4,000.00	10,160.00
Support Staff/Clerical	8,000.00	-	-	-
Program Monitor	8,000.00	-	4,000.00	4,000.00
Program Monitor	8,000.00	-	7,000.00	7,000.00
Program Monitor	8,000.00	-	8,000.00	8,000.00
Program Monitor	8,000.00	-	4,000.00	4,000.00
Program Monitor	-	-	4,000.00	4,000.00
Total, 2002	<u>\$ 72,000.00</u>	<u>\$ 20,932.00</u>	<u>\$ 31,000.00</u>	<u>\$ 51,932.00</u>

For the period January 1, 2003, to December 31, 2003:

Program Coordinator	\$ 32,000.00	\$ 22,158.00	\$ -	\$ 22,158.00
Coordinator/Monitor	8,000.00	-	-	-
Program Monitor	8,000.00	-	2,800.00	2,800.00
Program Monitor	8,000.00	-	2,800.00	2,800.00
Program Monitor	8,000.00	-	2,800.00	2,800.00
Program Monitor	8,000.00	-	2,800.00	2,800.00
Total, 2003	<u>\$ 72,000.00</u>	<u>\$ 22,158.00</u>	<u>\$ 11,200.00</u>	<u>\$ 33,358.00</u>

The following is a list of the invoices submitted by New Horizon, Incorporated, for payroll for 2002 and paid in 2002 from the tobacco funds (New Horizon, Incorporated, DBA Lake County Minority Tobacco Coalition):

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Date of Invoice and Check	Invoice Number	Check Number	Description on Invoice of Services	Amount
04-01-02	53954	1004	Administrative payroll 04-01-02 to 06-30-02	\$ 20,000.00
07-01-02	53955	1043	Administrative payroll 07-01-02 to 09-30-02	20,000.00
10-01-02	53957	1066	Administrative fees	24,000.00
10-01-02	53956	1069	Administrative payroll 10-01-02 to 12-31-02	<u>8,000.00</u>
Total				<u>\$ 72,000.00</u>

The above invoices were not prepared at the time the checks were written, but were prepared by Mr. Scott at the time they were requested by the State Board of Accounts.

On April 26, 2004, Mr. Scott provided invoices as listed below as support for 2003 expenditures; however, the invoices did not have invoice numbers, nor were checks issued in the amounts indicated on the invoices. These do not correspond to amounts provided to us as payroll expenses for 2003.

Date of Invoice	Description on Invoice	Amount
04-01-03	Q103 Monitor salaries	\$ 8,000.00
07-01-03	Q203 Monitor salaries	20,000.00
	Q203 Coordinator salaries	
10-01-03	Q303 Coordinator salary	10,000.00
12-31-03	Lead Agency indirect costs	<u>49,173.00</u>
Total		<u>\$ 87,173.00</u>

According to the approved grant agreement, New Horizon, Incorporated, was awarded \$1,081,800.00 from the State of Indiana's Tobacco Use Prevention and Cessation Trust Fund. The award was approved for a two year period from January 1, 2002, until December 31, 2003, with the State distributing \$540,900.00 in 2002 to cover the 2002 budget year, and \$540,900.00 was to be distributed to cover the 2003 budget year. As part of the grant agreement, New Horizon, Incorporated, submitted budget worksheets and narratives that covered each fiscal year covered by the grant award.

As stated in the approved grant agreement, part E Budget Narrative, "Coalition Tobacco Coordinator will be responsible for the implementation and coordination of Coalition efforts at \$32,000 per year. Support staff for coordinator at .33 FTE devoted to the project will be \$8,000 (\$24,000 annually x 33% = \$8,000). Program Monitors will assist Coalition Coordinator with program oversight, assist in monitoring implementation of all program activities, assist sub-grantees with program proposal development, assist with other aspects of program. Fringes for the Coalition Coordinator total \$6,000. This includes FICA - 7.65%, Life Insurance - 1%, Workman's Compensation - 3%, Unemployment Compensation - 1%, Holiday, and PTO. Fringes for Support

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Staff and Program Monitors will be in-kind contribution from New Horizons. Total costs for personnel - \$80,000." In 2002, New Horizon, Incorporated, advanced itself \$72,000.00 for salaries and wages; however, New Horizon, Incorporated, and Team Consulting, Incorporated, paid only \$51,932.00 in salaries and wages. If we allow for the payment of fringe benefits, which were not included on the invoices, this would total \$4,986.40; thus, New Horizon, Incorporated, overpaid itself \$15,081.60 for salaries and fringe benefits in 2002.

The approved grant agreement states, "Grant funds received by the Grantee pursuant to this Agreement shall be used only to institute an approved Tobacco Prevention and Cessation program permitted by Indiana Code 4-12-4 and the Invitation to apply for Grant, which project is described fully in Exhibit A, attached hereto, and the Grantee's completed application, on file with ITPC, made a part hereof and incorporated herein by reference as part of this agreement."

The approved grant agreement part V. I. states, "Failure to complete the project and expend state, local and/or private funds in accordance with this Agreement may be considered a material breach of the Agreement and shall entitle the State to impose sanctions against the Grantee including, but not limited to, suspension of all grant payments, and/or suspension of the Grantee's participation in State grant programs until such time as all material breaches are cured to the State's satisfaction. Sanctions may also include repayment of all state funds expended for activities, which are not in the scope of this project as set forth in Exhibit A of this agreement."

We are recommending that officials from ITPC request repayment of \$15,081.60 from Mr. Walter Scott, executive director, New Horizon, Incorporated, for overpayment of salaries and fringe benefits in 2002. (See Summary, Page 32)

None of the funds for the 2003 grant had been received by New Horizon, Incorporated; therefore, none of the funds claimed or paid for salaries and fringe benefits for 2003 can be paid or claimed for payment.

DISBURSEMENTS EXCEEDING BUDGET

Based on the budget approved with the Grant Agreement, New Horizon, Incorporated, DBA Lake County Minority Tobacco Coalition overspent the following three line items:

<u>Budget Category</u>	<u>Budget Amount</u>	<u>Disbursed</u>	<u>Reimbursements or Credits</u>	<u>Net Disbursed</u>	<u>Amount Spent (Over) Budget Amount</u>
Travel	\$ 3,163.00	\$ 6,776.28	\$ (60.00)	\$ 6,716.28	\$ (3,553.28)
Supplies	-	14,445.34	-	14,445.34	(14,445.34)
Furniture and Equipment*	-	4,694.53	(529.00)	4,165.53	(4,165.53)
Total	<u>\$ 3,163.00</u>	<u>\$ 25,916.15</u>	<u>\$ (589.00)</u>	<u>\$ 25,327.15</u>	<u>\$ (22,164.15)</u>

\* - Furniture and Equipment was budgeted by New Horizon, Incorporated, in the grant agreement at zero; however, two desk top computers were purchased (\$1,028.99), monitors (\$700.00), and printers (\$160.00), as well as a laptop computer (\$1,209.48), an overhead projector (\$1,000.00), a 27" television set (\$360.00), a video cassette recorder (\$79.92), and a mobile cart (\$156.14). These items have been included above under the category of furniture and equipment, but one of the desktop computers was returned (\$529.00), so a credit is reflected.



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Reimbursements or credits were given as follows:

Meeting Services Unlimited refunded a registration fee that was verified as paid from the Tobacco Account, and refunded to the Tobacco Account.

One of two desktop computers was returned, and a credit was given on a subsequent purchase.

As stated in the Grant Agreement approved February 22, 2002, "The project budget is set forth as Exhibit A in this Agreement, attached hereto, made a part hereof and incorporated herein by reference as part of this Agreement. The Grantee shall not spend more than the amount for each line item, as described in Exhibit A, without the prior written consent of a duly authorized representative of the State, nor shall the project costs funded by the grant and those funded by the local and/or private share be amended without the prior written consent of the State."

We are recommending that officials from ITPC request repayment of \$22,164.15 from Mr. Walter Scott for amounts spent which exceeded the approved budget. (See Summary, Page 32)

ITEMS NOT BUDGETED

Based upon the grant agreement, a grantee can budget a line item called "Other"; however, the grantee is to "(Provide a detailed breakdown and explanation for expenditures)." New Horizon, Incorporated, provided a budget for the calendar year, 2002, which listed "Other" as "Consumable Supplies/Materials" in the amount of \$3,737. Indiana Tobacco Prevention and Cessation Agency approved the grant agreement and attached budgets. The following items were paid for by New Horizon, Incorporated, which were not listed in the budget:

Vendor	Description per Invoice	Date of Check	Check Number	Amount
Golden Recognition Association Attractions	Formal Coalition Kick Off	04-11-02	1002	\$ 900
Enterprises, Inc.	Rental for a float	09-26-02	1064	475
New Horizon, Inc.	Youth Anti-Smoking Clinic	06-24-02	1013	2,500
Pilgrim Missionary Baptist Church	Back to School space rental	08-07-02	1046	<u>150</u>
Total items not budgeted				<u><u>\$ 4,025</u></u>

From budget explanations provided to Grantees, Number 5 "Other" states, "This category can include costs for items such as telephone, rent, copying, printing, postage, mailing, publications, and public and professional education costs. If your agency or organization has an approved indirect cost plan, costs may not be included in the Other category if they are included in the indirect charge."

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As stated in the Grant Agreement approved February 22, 2002, "The project budget is set forth as Exhibit A in this Agreement, attached hereto, made a part hereof and incorporated herein by reference as part of this Agreement. The Grantee shall not spend more than the amount for each line item, as described in Exhibit A, without the prior written consent of a duly authorized representative of the State, nor shall the project costs funded by the grant and those funded by the local and/or private share be amended without the prior written consent of the State."

We are recommending that officials from ITPC request repayment of \$4,025 from Mr. Walter Scott for amounts spent which were not included in the approved budget. (See Summary, Page 32)

UNDOCUMENTED OR NONBUDGETED DISBURSEMENTS

The following items for which checks were issued in which either invoices were not provided for audit, or the invoices were not prepared prior to the checks being issued:

Date of Check	Check Payee	Check Number	Amount	Endorsement
01-02-03	NHI Corp (Lifeskills Program)	1082	\$ 12,000.00	New Horizon, Inc., 2701472
01-16-03	NHI Corp (Payroll 1Q03)	1089	12,000.00	New Horizon, Inc., SBS 639650324
03-09-03	NHI Corp (Cessation Activities)	1096	2,250.00	New Horizon, Inc., 2701472
04-02-03	NHI Corp (Restaurant Survey)	1099	4,950.00	New Horizon, Inc., 2701472
05-08-03	NHI Corp (Spring Youth Activities)	1102	2,246.00	No endorsement - Mercantile Bank
09-10-03	NHI Corp (Youth Anti-Smoking Clinic)	1105	12,000.00	No copy of back of check
01-15-03	Atty Clorius Lay*	1086	2,000.00	Clorius L. Lay
03-21-03	Atty Clorius Lay*	1097	1,000.00	Clorius L. Lay
04-30-03	Standard Business Solutions, Inc.	1100	3,000.00	For Deposit Only Standard Office Supply 7302347
11-01-02	RLS Consulting, Inc., (Contract See Details Below)	1072	3,000.00	RLS Consulting 2702479
11-13-02	Team Consulting	1075	12,500.00	Team Consulting, Inc., 627271356
01-02-03	Team Consulting (Manage Monitor Payroll 1Q03)	1083	8,000.00	Team Consulting 627271356
04-01-03	Team Consulting (Spring Rally at Junedale)	1098	3,000.00	Team Consulting 627271356
01-16-03	School Infusion Program	1088	<u>14,547.71</u>	SBS 639650324
Total undocumented or nonbudgeted disbursements			<u>\$ 92,493.71</u>	

\* - An invoice was provided by Attorney Lay at the date of the audit, but it simply stated, "Please accept this communication as my 2003 Invoice for the three thousand (\$3,000) dollars received from Lake Co. Minority Tobacco Prevention Cessation Coalition for legal services provided during the Calendar Year 2003." First, the grant was awarded for the calendar year 2002, and secondly, the communication does not indicate what type of legal work was performed, dates or hours worked, or the billing rate.

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In May 2003, we performed a review of disbursements. At that time with two exceptions, none of the items noted above were supported by invoices. Of the two invoices provided, one is dated May 8, 2003, and the other September 10, 2003; both were payable to NHI Corp. When we discussed the items paid without invoices with officials of New Horizon, Incorporated, officials began printing invoices for the NHI Corp payments. For this audit, we requested all records be provided as of a specific date. For the items in which a description is provided in parenthesis, invoices were not provided on the date requested, but were provided subsequent to that date. The invoices were provided in a separate mailing; therefore, we included the items above as undocumented because the invoices were not prepared in advance of payment; nor were they provided at the time the records were requested for audit. The description from the invoice is provided; however, none of those items were addressed or provided for in the grant budget.

A contract was provided by New Horizon, Incorporated, for RLS Consulting, in the separate mailing to support the disbursement to RLS Consulting. The contract stated that it was entered into on November 4, 2002. The "Agreement is effective August 1, 2002, and shall remain in full force and effect until November 5, 2002." Based upon the contract, the contractor shall "Submit all expenses reimbursable to New Horizon, Inc., for reimbursement on or before the tenth (10<sup>th</sup>) day of the month following the expenses, accompanied by all receipts and detailed description of the expenses, the sufficiency of which shall be determined by New Horizon Inc." The purpose of the contract was "The members of the precinct organization will, on election day, distribute materials concerning tobacco control to voters who come to the polls to vote. Additionally, a list will be created of those individuals who seek additional prevention information and/or need assistance with cessation. Program development, oversight and coordination will be performed by RLS Consulting, Inc." No invoice nor any detail or receipts was submitted by RLS Consulting.

We are recommending that officials of ITPC request repayment from Mr. Scott of \$92,493.71 to be reimbursed to the State for undocumented disbursements, as the validity and applicable allowable grant activity could not be determined. (See Summary, Page 32)

The grant agreement Section V. I. states, "Failure to complete the project and expend state, local and/or private funds in accordance with this Agreement may be considered a breach of the Agreement and shall entitle the State to impose sanctions against the Grantee including, but not limited to, suspension of all grant payments, and/or suspension of the Grantee's participation in State grant programs until such time as all material breaches are cured to the State's satisfaction. Sanctions may also include repayment of all state funds expended for activities, which are not in the scope of this project as set forth in Exhibit A of this agreement."

#### REPORTS REQUIRED

Quarterly Fiscal Reports were filed incorrectly. The December 31, 2002, report showed \$540,900.00 in expenditures when, as of the date of this audit, only \$476,382.22 had been spent.

Based upon the Grant Agreement, part V. G. states, "The Grantee is responsible for submitting to the State on a calendar quarterly basis, a Quarterly Progress Report until completion of the project. These reports must detail progress made toward the completion of the project described in Exhibit A."

NEW HORIZON, INCORPORATED  
DBA LAKE COUNTY MINORITY TOBACCO COALITION  
EXIT CONFERENCE

The contents of this report were discussed on October 27, 2004, with Ms. Celesta Bates, Chief Finance Officer of Indiana Tobacco Prevention and Cessation Agency.

The contents of this report were discussed on November 1, 2004, with Mr. Walter L. Scott, Executive Director of New Horizon, Incorporated. The official response has been made a part of this report and may be found on Pages 27 through 31.

Summary

It appears that SBOA may have conducted this audit without three very critical pieces of information thereby leading to some incorrect assumptions.

1. Per ITPC training during 2002 in Plymouth, IN. All agencies were informed that due to the lateness of the availability of funding, the ending date for 2002 activities of December 31, 2002 would be extended into 2003 with no definite ending date in 2003 for those 2002 activities. Therefore expenditures which occurred in 2003 would be included in the budget expenditures for the 2002 period or the first year of programming.
2. Per ITPC no grant activities conducted by the lead agency need additional approval from ITPC as that approval has already been given with the grant itself. It was further explained to us that businesses and agencies contracted with by the lead agency in the implementation of a program facilitated by the lead agency are covered by the authority held by the lead agency. Also, it was very carefully explained to us how to differentiate between a sub-grantee and a contractor, and it was made very clear.
3. Due to the method used by the SBOA audit (it is different from other audits), we feel that the best way to move and spend grant dollars should have been as follows:

ITPC sends funds to the Medical (holding) Account

Money is transferred from medical account to the LCMTTPCC checking account

Checks are written from LCMTTPCC account for programming

Checks are supported by invoices from vendors, etc.

However, this did not always occur. Early on, there were instances where vendors were paid directly from the medical account. Of course, when this was brought to our attention it was corrected. This situation however, seems to cause the SBOA to assume that monies that were withdrawn from the medical account were used for purposes other than approved tobacco activities. Such was not the case, and is evident by the notation made in the account ledger.

4. Finally, SBOA never asked for a Profit and Loss or financial statements which we are accustomed to providing to other auditing agencies. These reports show directly where, how, with whom and for what purpose funds were spent.

#### Corporate Status (page 8)

New Horizon Inc. is the DBA for NHI Corp.

#### Tobacco Funds Not Transferred

SBOA assumes that monies withdrawn from the medical savings account and not directly deposited to the tobacco account are somehow not being used for tobacco activities. This is incorrect. Vendors were often paid directly from the Medical Account

#### Unnecessary Bank Fees (page 12)

We concur with SBOA that the tobacco account was charged with fees that should be reimbursed, except for the fees associated with the account balance falling below \$4,000. This was caused by the decision of ITPC to discontinue funding

#### Fixed Assets (page 13)

We concur that those eligible items should be returned to the state.

#### Sub Contracts (page 13)

Approval is needed by ITPC for all mini-grantees. However, no additional approval is needed for programs facilitated by NHI. NHI contracts with other agencies and businesses to perform portions of programs. These contracts, per ITPC do not need additional approval. The award amounts on page 14 are incorrect. SBOA has only listed ½ of the award amounts, as these grants were written for only one year. Also several organizations with ITPC approved grants were left off the list, such as Faith Temple, Gary Freedom House, and Helping Hands.

The funding for the grant which included The Glen Park Coalition of Concern was released to the fiscal agent, per ITPC, when it was discovered that the CEO of Glen Park Coalition of Concern had moved out of state. This was done in accordance with ITPC recommendations, and reflected in the 1099 issued to TEAM Consulting Inc.

#### Mini-Grant Money Not Dispersed (page 14)

The first three agencies on the list decided not to see their grant to completion. TWT and CUE grants were completed by NHI. Tree Of Life completed the portion of the grant that they were paid for, and Healthy East Chicago wrote a two year grant and received their grant money in total for the first year.

#### Sub-Contract Paid Authority (page 15)

All agencies listed were contractors for NHI facilitated programs. Authority for NHI to facilitate programs is contained within the grant document from ITPC and the State of Indiana. Again, there is a clear difference between a sub-grantee and a contractor who contracts with the lead agency facilitating a program.

#### Related Parties

Most relationships cited by SBOA are correct. Since there was no malfeasance, we are not clear what the problems could be. If it is assumed that there is a conflict of interest, we can show that all funds were dispersed in accordance with ITPC rules and knowledge (ITPC visited our site and was informed about our office supply business).



### Monitoring

Monitoring for all sub-grantees was performed. Activities and financial monitoring was performed. No recommendation or guidelines for monitoring was provided by ITPC in terms of a format in which monitoring should occur.

### Salaries and Benefits


All salaries and benefits were paid in accordance with the specifications of the grant. The program coordinator worked full time in the tobacco program and part-time as a case manager for New Horizon.

No separate records were kept as to how many hours support staff spent performing tobacco work. That work was performed "By Committee", using several support personnel. Again we were not aware that those hours should be tracked.

During the 2003 year we were advised by ITPC to continue with programming including the payment of salaries until funding resumed. ITPC continued to interact with New Horizon as the lead agency until September 30, 2003.

Finally we feel that SBOA should re-examine their findings within the context of the additional information that we have provided.

Prepared by:

  
Walter L. Scott, MPA

NEW HORIZON, INCORPORATED  
DBA LAKE COUNTY MINORITY TOBACCO COALITION  
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Mr. Walter Scott:			
Tobacco Funds Not Transferred, Pages 9 through 12	\$ 63,859.81	\$ -	\$ 63,859.81
Unnecessary Bank Fees, Page 13	478.35	-	478.35
Subcontractors Paid Without Authority, Page 15	42,000.00	-	42,000.00
Subcontractor Monitoring, Page 16	11,026.86	-	11,026.86
Salaries and Benefits, Pages 19 through 22	15,081.60	-	15,081.60
Disbursements Exceeding Budget, Pages 22 and 23	22,164.15	-	22,164.15
Items not Budgeted, Pages 23 and 24	4,025.00	-	4,025.00
Undocumented or Nonbudgeted			
Disbursements, Pages 24 and 25	<u>92,493.71</u>	<u>-</u>	<u>92,493.71</u>
Totals	<u>\$ 251,129.48</u>	<u>\$ -</u>	<u>\$ 251,129.48</u>

AFFIDAVIT

STATE OF INDIANA   )  
                                  )  
LAKE COUNTY         )

We, Michelle M. Janosky and Michaelleen Orelup, Field Examiners, being duly sworn on our oaths, state that the foregoing report based on the official records of the New Horizon, Incorporated, DBA Lake County Minority Tobacco Coalition, Lake County, Indiana, for the period from January 1, 2002, to December 31, 2003, is true and correct to the best of our knowledge and belief.

\_\_\_\_\_

\_\_\_\_\_  
Field Examiners

Subscribed and sworn to before me this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

\_\_\_\_\_  
Notary Public

My Commission Expires: \_\_\_\_\_

County of Residence: \_\_\_\_\_